

Enhancing Viet Nam's Trade with East Asia for Rapid and Resilient post-COVID Recovery

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Synopsis

- Despite uncertain in the global economic context, Viet Nam should still be open to progressive trade, especially with East Asia, in the future.
- East Asian (including ASEAN) countries have played an important role in Viet Nam's trade and FTA history; effective implementation of RCEP should contribute not only to Viet Nam's long-term economic growth, but also economic recovery after COVID-19 pandemic.
- Viet Nam should focus more on: (i) harmonization of FTAs; (ii) coordination of industrial, investment and trade policies; and (iii) adoption of new economic models that are friendly to trade and innovation.

Introduction

Since 2022, Viet Nam started to implement its Economic Recovery Plan. Nevertheless, the external environment has mixed factors that potentially affect Viet Nam's economic recovery after COVID-19. *First*, the risks of diseases, such as COVID-19, monkey pox, etc., remained complicated. *Second*, the world has been exposed to a rise in geopolitical tensions/conflicts, including the Russian-Ukraine conflicts, trends of alliance for confrontation and sanctions across countries, supply chain disruptions and commodity price hikes. *Third*, there was more consensus towards sustainable development and climate change adaptation, but these also risk bringing up new environment-related standards to deter various economies. *Fourth*, various economies have embarked on interest rate normalization. The US have undergone successive rate hikes in 2022. A more frequent discussion across the globe in 2022, thus, was the implication on economic recessions. *Fifth*, despite fear of China-US decoupling, international cooperation in trade and investment made progress, notably with the agreement achieved in the 12th Ministerial Conference of the World Trade Organization, the entry into force of the Regional Comprehensive Economic Partnership (RCEP), and the initiation of the Indo-Pacific Economic Framework (IPEF).

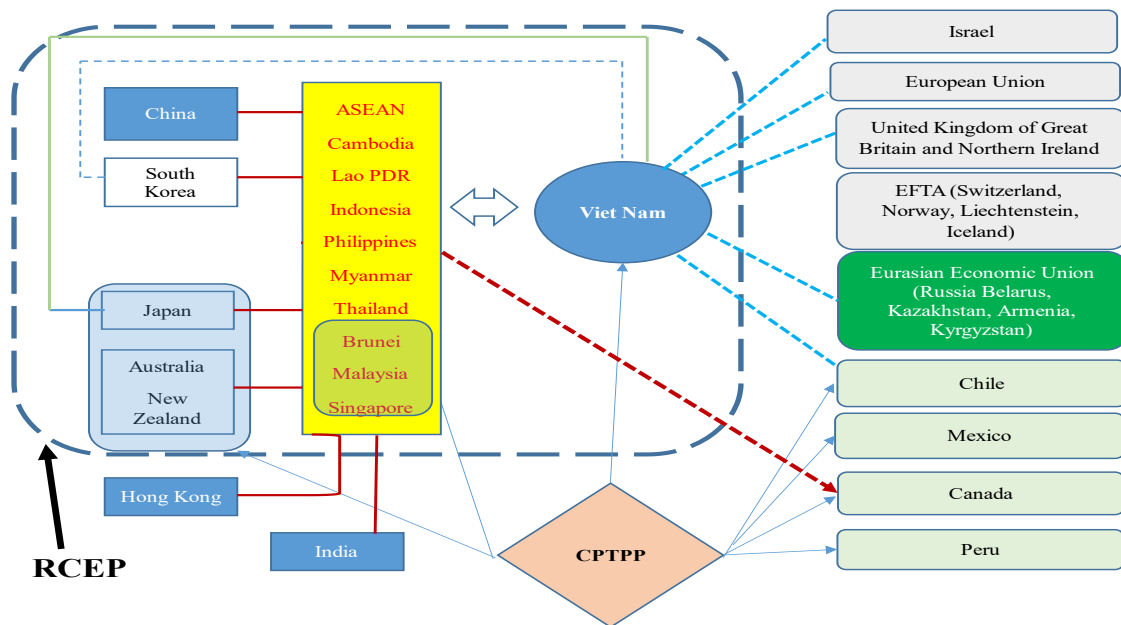
This manuscript elaborates on the need for deepening trade with East Asia to help promote economic recovery in Viet Nam after COVID-19 pandemic. Apart from the Introduction, the remainder of this manuscript consists of three Sections. Section II reviews the importance of East Asia in Viet Nam's trade relations. Section III argues for the role of RCEP in Viet Nam's economic recovery. Section IV makes some key recommendations based on the discussion in earlier Sections.

East Asia as key partners in Viet Nam's FTA history

The extended East Asian countries (including Southeast Asia) have played an important, if not central, role in Viet Nam's international economic integration. As its first integration milestone, Viet Nam joined the Association of Southeast Asian Nations (ASEAN) in 1995 and accordingly the ASEAN Free Trade Area (AFTA). After that, Viet Nam also signed the various free trade agreements (FTAs) of ASEAN with regional partners, and the latest one by November 2020 was the RCEP (Figure 1). Along the process, Viet Nam gradually integrated

more deeply into the regional market with specific liberalization commitments in many areas (trade, investment, connectivity, etc.). Together with the accession and implementation of commitments under AFTA, Viet Nam undertook numerous domestic reforms in order to improve its trade policy, especially trade policy instruments such as export tax, import tariff, quota, tariff quota, etc.

Figure 1: Viet Nam's FTA as of September 2022



Source: Authors' compilations.

Several observations can be made with respect Viet Nam's trade relations with East Asian countries. *First*, Viet Nam's exports have better met the import demand of East Asian countries than of other markets (Table 1). Meanwhile, exports of major trading partners seemed to better meet Viet Nam's import needs: the trade complementarity index of most partners' exports to Viet Nam had very high scores (ranging between 55-75 in the 2001-2018 period) (Table 2).

Table 1: Viet Nam's Trade Complementarity Index with selected partners, 2001-2018

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ASEAN	34.7	34.2	35.0	36.7	39.7	42.3	45.2	51.4	47.6	48.5	53.4	57.0	55.0	54.3	54.7	53.9	52.3	51.9
RCEP	43.9	41.2	41.3	42.6	44.6	47.6	49.7	53.1	50.0	50.1	53.9	54.3	53.4	52.4	53.1	52.5	51.7	50.9
CPTPP	42.2	40.3	41.7	42.9	44.9	47.0	50.1	55.0	52.6	52.0	56.3	55.7	54.7	53.7	52.8	52.0	51.5	51.3
EU27	41.0	39.5	39.8	40.5	43.0	45.2	46.8	52.9	52.4	54.1	54.6	52.7	51.2	51.0	49.4	48.1	47.7	47.1
US	41.6	41.2	44.0	46.0	48.7	50.5	53.4	55.9	54.5	54.2	57.0	55.1	54.2	53.9	52.8	51.5	51.5	51.1
China	29.3	27.2	27.8	30.2	31.3	34.7	36.3	42.1	40.4	43.5	47.4	52.9	54.0	52.4	54.2	52.9	52.0	51.4
Japan	56.1	54.4	55.2	56.5	58.9	58.0	55.9	55.7	55.4	53.7	55.0	53.3	52.7	52.2	53.1	52.8	51.9	50.7
Korea	47.9	45.6	45.0	47.2	50.0	50.2	49.2	50.6	46.0	46.3	50.3	49.6	49.4	49.3	51.2	51.0	49.5	47.2

Source: CIEM (2021).

Table 2: Trade Complementarity Index of some partners with Viet Nam, 2001-2018

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ASEAN	56.9	57.8	60.0	59.5	61.1	63.1	66.9	67.7	66.1	64.2	66.9	69.1	68.2	69.3	71.9	70.7	69.2	70.2
RCEP	64.3	62.6	62.4	59.9	60.2	60.0	63.9	65.9	66.9	66.6	69.1	70.4	70.4	71.2	73.3	71.9	70.8	71.9
CPTPP	62.4	62.1	64.3	62.2	63.7	64.0	68.4	71.3	69.3	67.7	70.8	66.4	63.9	64.4	66.2	64.3	63.1	63.4
EU27	67.2	66.4	67.9	64.5	64.2	64.2	66.9	66.7	68.0	69.3	67.7	65.4	64.4	64.2	65.4	63.0	62.2	61.2
US	59.7	59.8	62.5	59.8	59.5	59.1	61.8	64.6	66.2	67.4	67.9	64.1	62.4	62.5	63.3	61.5	60.8	60.4
China	55.1	55.0	55.0	51.8	51.0	52.0	55.2	55.0	55.7	56.3	57.6	60.6	64.2	65.8	69.4	70.3	68.4	67.3
Japan	50.7	50.4	50.5	47.2	48.3	48.9	53.2	55.0	59.8	58.1	58.9	56.9	56.7	57.5	59.4	56.9	56.1	55.6
Korea	62.8	60.5	61.5	57.6	57.7	57.6	58.8	60.4	61.4	61.5	65.2	70.5	71.1	71.3	72.7	74.5	74.9	75.4

Source: CIEM (2021).

Second, RCEP as a comprehensive FTA by ASEAN and East Asian countries could induce new competition on initiatives for regional linkages. Annex 1 of APEC Economic Leaders' Statement in 2016 identified that RCEP and the Trans-Pacific Partnership (now the Comprehensive and Progressive Agreement for Trans-Pacific Partnership-CPTPP) are pathways towards a free trade area of the Asia-Pacific (FTAAP). Given that both CPTPP and RCEP have entered into force, the future of FTAAP can have a stronger foundation. Besides, various economies in the world, including in Asia and Latin America, became more interested in CPTPP membership. In addition, IPEF may offer a dialogue platform for regional countries, including those in East Asia, to work on economic cooperation beyond an FTA framework.

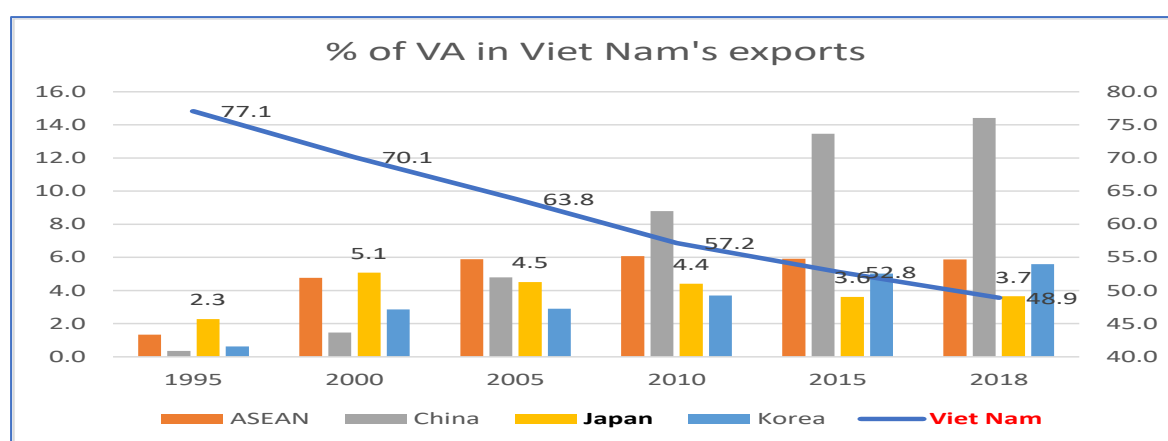
Importance of RCEP in Viet Nam's Economic Recovery after COVID-19

The literature before RCEP projected that the agreement could help increase exports and national income for Viet Nam. The Multilateral Trade and Investment Project (2015) and Petri et al. (2012, 2014, 2017) already show that RCEP has trade creation effect, rather than just trade diversion. More recently, CIEM (2021) argues that while institutional impacts of RCEP may be less than CPTPP and EVFTA, RCEP has crucial impacts via harmonization of rules of origin and replication of high standards of new-generation FTAs, which can in turn boost

engagement of Vietnamese enterprises in the global and regional value chains. Petri and Plummer (2020) contend that RCEP helps partially compensate for negative impacts of US-China trade war but Viet Nam, unlike other partners, already got a small positive impact of trade war.

Over the past decades, the East Asian countries have increased value added in Viet Nam's exports. This has been facilitated by Viet Nam's approach in engaging in East Asian trade that resembles acceptance of "smaller share of a bigger pie". The share of domestic value added in Viet Nam's exports went down from 77.1 per cent in 1995 – the year of ASEAN accession – to 48.9 per cent in 2018 (Figure 2), but overall exports rose by 44.7 times in the same period.

Figure 2: Share of value added in Viet Nam's exports

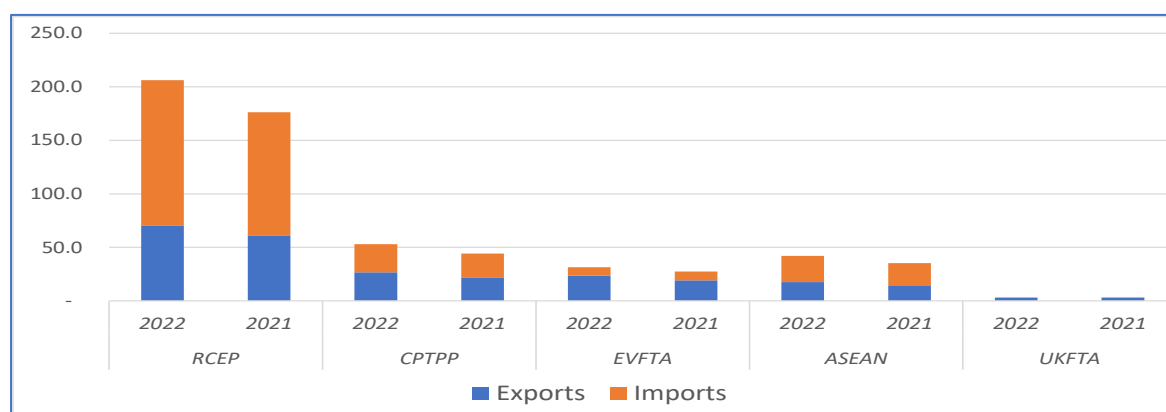


Source: Author's calculations from OECD-TiVA database.

While it is too early to have rigorous assessment of ex post impacts of RCEP, available statistics show that Viet Nam's trade with RCEP countries expanded in the first half of 2022 (Figure 3). CIEM (2022) argues further that RCEP implementation also ties Viet Nam with the economic recovery momentum in the region. However, traders still some challenges in effective implementation of RCEP. On the one hand, Viet Nam has for years reported relatively low level of FTA utilization, and the issue may be replicated for RCEP. On the other hand, supply chain disruptions continued in 2022 for various parts of the world and for various products, which affected Viet Nam's trade with RCEP partners. More importantly, convincing stakeholders to pursue further trade with RCEP partners – while Viet Nam has been under sizeable trade deficits with some of them – is no straightforward task.

Figure 3: Viet Nam's trade with RCEP countries in the first halves of 2021 and 2022

(Unit: Billion of U.S. Dollars)



Source: CIEM (2022).

Key recommendations

Learning from its past experiences, Viet Nam should deepen its trade relations with ASEAN and East Asian countries, including via the implementation of RCEP. More specifically, Viet Nam should consider several policy directions. *First*, Viet Nam should harmonize the implementation of RCEP, CPTPP and EVFTA, as it did during the simultaneous negotiations of these three agreements. *Second*, Viet Nam should ensure more consistent coordination of industrial policy – investment policy – trade policy, so as to give a consistent signal to Vietnamese firms on the path of economic recovery. *Third*, Viet Nam should adopt new economic models that help improve rapid and resilient recovery after COVID-19. Among them, the circular model should be promoted with a view that is sufficiently friendly to liberal trade and innovation.

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